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# INTERNATIONALIZATION OF FAMILY FIRMS-CHALLENGES AND OPPORTUNITIES IN RUSSIA

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## Abstract

The family firms (FFs) play an instrumental role in the economic spectrum of the Russian economy with respect to their contribution to income, output, and employment, *ceteris paribus*. The FFs not only contribute the domestic business activities but also make a significant contribution to international business. Ever since the launch of the mass privatization program (MPP) in Russia during 1992–1994 numerous disruptions on the business and economic landscape of Russia have emerged, and as a result, the FFs in Russia have been experiencing several new opportunities and challenges in the international market. However, it is noticeable that corporate regulatory, and corporate governance systems do not even clearly define the FFs. The current study explores the following research objectives: first, the motivation of internationalization of family enterprises in Russia, second, their process of internationalization, and third, the problems and challenges faced by the family enterprises.

## 1. INTRODUCTION

The interest of scholars researching in the field of internationalization of FFs, especially the small and medium-sized enterprises (SMEs), has grown manifolds owing to the ever-increasing role of FFs and their

unique characteristics with respect to the ownership, and control and importance of family interactions in such enterprises. Welch and Luostarinen (1988) define internationalization as “the process of increasing involvement in international operations” (p. 36). The sequential process of internationalization involves commencing (first entry), intensifying (investing more resources) and broadening (types of operation modes and their applications) phases. Internationalization of FFs has several other peculiar characteristics: cumulative, evolutionary, historic, and progressive (Metsola, Leppäaho, Paavilainen-Mäntymäki, & Plakoyiannaki, 2020; Langley, Smallman, Tsoukas, & Van de Ven, 2013).

The MPP created several upheavals on the business and economic front in the country. These upheavals on the one hand exposed the FFs in Russia to a plethora of uncertainties and challenges, however, at the same time created several potential opportunities for such enterprises in the field of international business. The current study, therefore, explores the following research objectives: first, the motivation of internationalization of FFs in Russia; second, the process of internationalization of FFs in Russia; and last, the problems and challenges faced by the FFs in Russia. The current study is based on ten semi-structured interviews of entrepreneurs, each of them is representing a specific FF. The current study makes various contributions to the extant literature. The contributions of the current study are the followings: first, it elucidates the imperatives/motivations of internationalization among the family enterprises in Russia, second, it underscores the issues and challenges that the Russian family enterprises, representing diverse sectors, have encountered in their process of internationalization. There is a general paucity of literature related to internationalization of FFs in the context of Russian corporate settings and the current study is an effort to fill this void.

## 2. LITERATURE REVIEW

According to the stage approach internationalization follows as an incremental and sequential process, comprising of factors including perceptions, expectations, experiences on the one hand and managerial capabilities, organizational structure, and linkages to external contingencies on the other hand (Coviello & McAuley, 1999; Melin, 1992). The Uppsala model (U-model) highlights the stage approach by underscoring two important drivers of internationalization of enterprises: the learning process and the psychic distance (Johanson & Vahlne, 1977). About the first driver, the U-model states that managerial and organizational experiences can be important contributors to the learning process of an enterprise. For example, when an enterprise has some previous experience of international businesses and markets, even at the bare minimum level, it is better equipped to launch itself in the internationalization process in a step-by-step, structured, sequential,

and incremental manner than its counterparts having no such experience. The knowledge and experience acquired through such processes of internationalization can enable enterprises to do better decision-making.

According to the network approach, the incentives and the mechanism of internationalization of FFs can be explained by the resource mobilization process including knowledge, commitment, on-going activities, and decision-making characteristics of enterprises in both intra-, and inter-organizational settings in a multilateral framework. A network is comprised of a nexus of relationships, for example, those related to financial, technological, personnel, market and business environment among enterprises, and such relationships can be both cooperative and competitive. The FFs can form their business networks and/or strengthen their associations and collaborations with other members of the existing business networks. The scope of activities of such business networks can be within the national boundaries initially and subsequently grow internationally. A successful network represents the continuous accumulation of establishing, developing, and maintaining relationships with other partners to fulfill the international development of the FFs. The networks promoting internationalization of FFs depend on the resource mobilization process, both at an enterprise level, of assessing its own enterprise resource endowments and those of other enterprises, when two or more enterprises forms their relationships in the existing networks and/or form the new networks altogether. The FFs can initiate their internationalization process, including the selection of the market and the mode of entry, by capitalizing their network relations. Arguably, an FF can speed up its internationalization process through the international networks as the latter can not only influence the initiation of the internationalization process of an FF but also influence the nature and types of investments made by an FF in international markets.

According to the international entrepreneurship approach, a new enterprise starts a new international activity by combining innovativeness, proactiveness, and risk-seeking behavior in the international markets with a clear motive to add value to it (McDougall & Oviatt, 2000). This approach is characterized by several factors including pursuing an iterative learning path of internationalization by the enterprise led by the proactive role of it in the dynamic process of resource mobilization as well as allocation, and continuous creation of competencies to succeed in the international markets. Many researchers, including Fletcher (2004), hold that international entrepreneurship approach reflects the future opportunities available to an enterprise in terms of products, services and organizational transformation and such opportunities get available to FFs through the networks promoting international business activities.

### 3. RESEARCH METHODOLOGY

For the current study, empirical data have been collected through the ten semi-structured interviews of FFs (Ribeiro & Scapens, 2006; Hair, Bush, & Ortinau, 2006). Only CEOs of case enterprises have been interviewed. The interviews have been conducted during the time period February–April 2021. As many as seven CEOs are serving as CFOs of their enterprises. All the respondent CEOs are directly responsible for the international business activities of their respective enterprises. The ten FFs are taken from education and training (3), automotive industry (2), textile (2), heavy industry (2), and natural resources (1). The number of total employees working in each enterprise, including family members, has been between six to thirteen. It is noteworthy that there is no official status and definition of FFs in Russia.

In the current study semi-structured interviews have been used to collect data, which is qualitative in nature (Lee & Humphrey, 2006; Lukka, 2007). The rationale of interviewing only CEOs is, first, to standardize the interviewees and second, CEOs perform the majority of the executive tasks and expectedly they are the only ones who have the maximum information about the relatively smaller size of the enterprises.

### 4. MAIN FINDINGS AND DISCUSSION

The MPP caused adverse effects on the corporate governance system and practices. For example, MPP created an atmosphere of weak and porous corporate governance system in Russia characterized by ineffective internal controls, accounting data manipulations, higher incidence of related party transactions, depletion of minority shareholders' rights, weakening of property rights of foreign investors and lowering the quality of financial reporting, among others.

There is an acute lack of knowledge and understanding of the core principles of corporate governance aspects in Russia especially in the context of family FFs. Similarly, there are several anomalies, ambiguities, contradictions, heterogeneities, uncertainties, and obstacles associated with the implementation of whatever corporate governance rules and practices related to the FFs exist, especially those related to definition of an FF, procedure, taxation, subsidies, international operations, and financial reporting. The abovementioned limitations and pitfalls necessitate further exploring of the corporate governance system, mechanisms, and tools.

The analysis shows that the FFs lay significant emphasis on innovation. The enterprises underpin financial strength as a key parameter to repay the financial debt, do better debt-servicing, and re-invest profits to expand business operations. Internationalization has

been reckoned as an engine to achieve the abovementioned financial strength.

Another important factor for internationalization has been observed to be the economic situation in Russia. The domestic economy of Russia is not stable, in many cases FFs consider internationalization as a means to hedge their business risks. Internationalization has enhanced the business stability of case enterprises.

The FFs have initiated and then further extended their international business activities due to constant and steady growth in their linkages with the external contingencies developed over time. However, the growth in such linkages can be attributed to the behavioral aspect of the leadership of these enterprises. The desire and motivation to grow have led these enterprises to bring changes in their organizational structure, utilize their previous experiences and explore more about the potential markets. Interestingly, several enterprises have already established their business relations with diverse markets. It appears that these enterprises have grown *incrementally* and *sequentially*. Internationalization has increased the competitiveness of these FFs even in the Russian domestic market.

At the initial stage of internationalization, driven by growth expectations, many case FFs explored the potential international market by themselves and obtained first-hand experience in the process. The FFs exposed themselves to extremely high financial, market, operation, and organizational risks, especially in the wake of almost no institutional support. However, these risks became better managed and relatively foreseeable as the perceptions, desires, motivation, experience of the enterprises grew over time.

The exposure to information technology, business negotiations, visits to trade exhibitions has helped the FFs to overcome the psychic distance phenomenon. The learning process, for example, education, experiences, and exposure has been observed to minimize the psychic distance.

Many FFs reckon internationalization as an innovation activity *per se*. The entrepreneurs of FFs, despite having minimal or almost no experience in the field of international business, studied multiple dynamics of global markets to look for suitable markets, and counterparties. This was followed by the stage in which some FFs started taking part in the foreign trade activities, however, at a very basic, low value and volume and without bringing any perceptible changes at their organizational level. Later, these enterprises engaged in more frequent, high-value and volume foreign business activities by incorporating internationalization as an important business objective. This stage also witnessed many changes related to, for example, organizational restructuring, market research, product and process innovation, quality assurance.

Invariably all the networks, both domestic and international, have played a major role in augmenting international business activities of the case FFs. Regardless of the industry/sector, all the case FFs admit that they have been the beneficiaries of various business networks right from the start stage to the business expansion one.

Many case FFs hold that there are more administrative challenges in Russia than they face in the foreign markets. There has been no support from the state. Almost all the case FFs have the unanimous opinion that they took a big risk while placing the import orders or executing the export orders in the wake of almost no first-hand knowledge until they could obtain the actual experience until first-time at least. Similarly, there were lengthy administrative requirements at the border control and custom checkpoints, nonetheless, no proper official guidelines in this respect could be made available to the case enterprises. There is nearly a consensus among the interviewee CEOs of the FFs that the government does not support them in any form and instead by imposing multiple directives and stipulations the functioning of these enterprises is obstructed.

Overall, the lack of regulated bank credit and existence of a complex taxation system dissuades the FFs from investing in new ventures and undertaking innovative activities. Similarly, the government's directives to set up business operations at certain specified business facilities, at the exorbitant costs though, has created downward pressure on the profitability of FFs. Many FFs have initiated their international business activities owing to their growing linkages with the external contingencies, developed over time. Similarly, internationalization has increased the competitiveness of the FFs in the Russian domestic market too.

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